

Assistance Towards Provision of Business Accommodation and Industrial/Business Land at Hill of Banchory, Hirn, Aberdeenshire

1. INTRODUCTION AND PROJECT DESCRIPTION

- 1.1 The North Banchory Co Ltd has planning permission for the development of a total of 10.58 acres of business/industrial land at Hill of Banchory, Hirn. The project being assessed for financial assistance will represent the initial phase of development at the site. The project will address market failure in the catchment area, and as a catalyst to further development.
- 1.2 Initially the development will comprise:
- Circa 20,000 sq.ft. net (in 2 phases, first phase of 13,151 sq ft gross)) of business accommodation in a purpose built building. A range of suite sizes will be available to cater for various categories of business user.
 - A bespoke Business Centre, (2,814 sf of the total) with units in multiples of 150 sq ft, for small/start-up businesses, to let on flexible terms.
 - Circa 3.47 acres (sites 2/3 and 10) of serviced industrial/business land for development. It is anticipated that up to a further 5.25 acres of industrial/business land will be opened up independently by the developer once confidence in the location grows.
- 1.3 A fuller description of the project and its phasing is provided in Appendix A.

2. FIT WITH STRATEGY

- 2.1 Key objectives of the Scottish Enterprise Network and Scottish Enterprise Grampian are to create a competitive place for business and to promote economic growth. The provision of a choice of business sites and locations is essential within this strategy. Network targets currently highlight the provision of start-up and small business accommodation, premises for innovation, and the attraction of private leverage. The project meets all of these Network criteria.

2.2 To promote SE Grampian's sustainability objectives and to allow employment opportunities to establish/expand, additional business land and premises in the Aberdeenshire area are required. Banchory is a key settlement within Aberdeenshire but has suffered from a lack of choice and availability of employment accommodation, as recognised by previous SE Grampian commissioned Industrial Land Reviews, and a current Strategic Study into land provision in Aberdeenshire (joint with Aberdeenshire Council). A significant number of residents travel to Aberdeen and elsewhere for employment.

2.3 The project will meet other SE Grampian aims as follows:

- It will address rural issues through provision of additional local employment opportunities (see Appendix C for job estimates), strengthening the existing community and its wider Deeside catchment, providing an alternative employment base in Aberdeenshire, and an alternative to commuting.
- It will address e-commerce opportunities by provision of quality IT infrastructure for use by businesses, by promoting connectivity and by use of IT to encourage new ways of working.
- Technology may permit links to other business centres in Aberdeenshire and business networking opportunities upon the presentation of a business case by the Enterprise Trusts/centre managers.
- It is possible that part of the building (or perhaps an adjacent site) could provide a location for the Satellite Office Initiative, (promoted by Aberdeenshire Council), allowing remote and sustainable working for employees of major companies (e.g. oil sector) through the use of appropriate technology. (Discussions on this option are ongoing).
- Leverage of private sector funds in the ratio of approximately 11.1.

3. OPTIONS/MARKET APPRAISAL

3.1 Hill of Banchory covers an extensive area and will be the only significant business/industrial land allocation for the area. The development therefore satisfies Structure and Local Plan policy as the only opportunity to significantly increase business land in the settlement.

- 3.2 High costs are associated with opening up the site, partly due to the requirements to upgrade, and ultimately replace, the access road to the main Deeside Road and to pumping/drainage requirements. Ultimately residential development to the West of the industrial/business allocation may give rise to the potential of cross subsidy for access roads to the greater industrial area, but costs cause a barrier to any development in the short to medium term, by raising the developer's perception of risk to an unacceptable level and by undermining initial profit margins.
- 3.3 Demand from local businesses is known to exist. Aberdeenshire Council, in addition to the developer's agent, have noted over some considerable period a number of live business enquiries which cannot be satisfied within the town. (Ref: FG Burnett Submission). The closest alternative location providing a similar choice in terms of quality and type of site is probably at Westhill. However, prices in this location are very high due to the overspill requirements from the restricted land supply in Aberdeen City.
- 3.4 Using comparable experience from Thainstone, Inverurie, tenants are likely to be drawn from a wide range of disciplines, including a significant percentage of high technology, high growth businesses, plus those engaging in e-commerce.
- 3.5 There are no alternative sites available. To "do nothing" will not relieve market failure, and economic growth in and around the settlement will continue to be constrained, contrary to the objectives of Aberdeenshire Council and Scottish Enterprise Grampian.

4. FINANCIAL APPRAISAL

- 4.1 A contribution to funding of £185,000 is proposed (in accordance with Section 4 (1) (e) of the Enterprise and New Towns (Scotland) Act 1990). This is against a total project cost of £1.643M for phase 1 and initial sites plus an additional cost of £702,000 for phase 2 of the business accommodation. Full financial appraisals together with assumptions are contained in Appendix B.
- 4.2 A start on site is subject to obtaining building warrants/road approvals only and is anticipated in late summer 2000. The development period will run for circa 9 months, with the accommodation and sites thus being available in mid
- 1.643
702
2345

2001. Scottish Enterprise Grampian's contribution will be paid in the second half of SE Grampian's financial year 2001/2001 (£150,000), with the remainder paid in financial year 2001/2002.

- 4.3 The contribution is needed to 'kickstart' the initial phase of the building and the serviced sites. The developer does not achieve their required return until completion and letting of phase 2, therefore clawback conditions as listed in Appendix D will not be invoked until this point.

5. APPLICANT APPRAISAL

- 5.1 The developer for the site is North Banchory Co Ltd a member of the Bancon Group. The Group has been established for 25 years and has carried out a number of projects through the Grampian area. The development company itself is relatively new and it is recommended that Group Guarantees are requested. Construction would be undertaken by a member company of the Bancon Group (Bancon Construction Ltd).
- 5.2 Funding would be primarily by bank finance. The contribution is subject to satisfactory finance arrangements being displayed.

6. EVALUATION

- 6.1 The project will be evaluated by quantifying: (a) the take up of the business building (b) the success of the Business Centre, and (c) the take up of sites provided by end year 3 and again by end year 5. Also the development cost at the end of construction of phases 1 and 2 will be evaluated against the estimates in the financial appraisal.

7. RECOMMENDATION

- 7.1 The proposed contribution of £185,000 to North Banchory Co Ltd be approved subject to agreement of the clawback conditions stated, and other terms of SE Grampian/SE's normal standard offer.

Appendix A

Hill of Banchory Assistance to Bancon – Project Summary

1.0 Project Description

- 1.1 The North Banchory Company (a member of the Bancon Group) owns considerable acreage to the north and east of Banchory for which a variety of planning applications for a mix of uses are being discussed with Aberdeenshire Council.
- 1.2 In addition to seeking substantial residential development, Bancon have outline permission for c. 10 acres net developable area of business/industrial land in the location shown on plan A. The development of this total area depends on the provision of a new link road through the sites to the A93. It is likely that this road will in due course become part of a Banchory "Northern Distributor" and will go on to link to residential development to the west of the industrial/business land. Bancon approached SE Grampian for assistance with the costs of this link road to open up the industrial land in 1999 but their approach was unsuccessful.
- 1.3 Bancon are now reconsidering a phased approach to the business development. They have detailed planning permission for a business development (office type accommodation); to be built in 2 phases on a 1.87 acre site at the location shown on plan B. This development can be provided with improvements to the existing Hirn Road access. Also it will be possible to access a number of serviced sites off the improved Hirn Road.
- 1.4 The business development would act as an initial catalyst for the larger project, with subsequent sites being opened up in later years on a phased basis. The new A93 road access link would not be required till later in the development programme, and by then may receive some "subsidy" from residential development, or indeed from a 'firming' of land/site values as the area becomes more established and confidence grows in the business location.

2.0 The Proposed Development

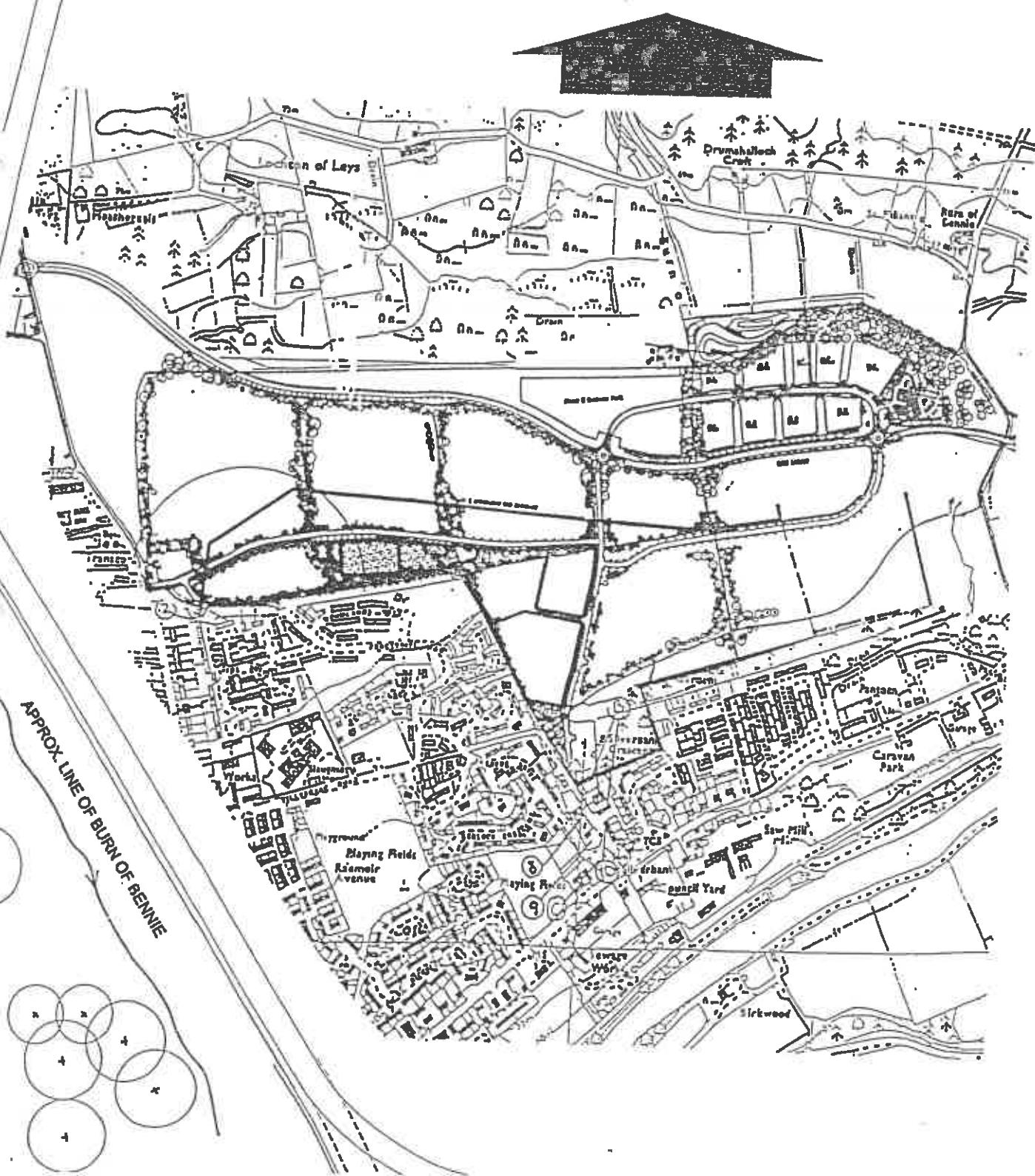
- 2.1 The first phase of development comprises provision of Phase 1 of the business accommodation. Phase 1 totals 13,151 sq.ft. gross, on 2 floors. Access road improvements, estate roads, landscaping etc form part of the development costs. Two serviced sites will also be brought on stream to accompany Phase 1.

- 2.2 The business accommodation will be modelled on the standard of Davidson House, Aberdeen Science & Technology Park and the developer plans to make a significant IT provision (cabling, comms etc) to appeal to a wide range of potential occupiers.
- 2.3 The developer envisages that part of Phase 1 (a total of 2814 sq.ft.) will be managed as a bespoke Business Centre, with units ranging in size from 150 sq.ft. or multiples thereof and available to let on flexible terms. The developer is formulating proposals for management of this centre. It is proposed that one of the Bancon Group companies will take a headlease of the Business Centre unit.
- 2.4 The remainder of the Phase 1 accommodation (c. 7,344 sq.ft. net), will be let on normal FRI terms, to tenants of appropriate covenant. Units will be offered in a range of sizes (from 667 sq.ft. to 2,389 sq.ft.). A maximum of 6 suites in Phase 1 (plus the Business Centre wing) are envisaged. (It is possible in addition that a sister company of the developer would lease a suite of c. 1,500 sq.ft. for their own occupation). Phase 1 also includes a meeting room of 350 sq ft to be rentalised.
- 2.5 Phase 2 of the business building totals 10,527 sq.ft. gross, (9,715 sq.ft. net) and benefits from Phase 1 by sharing a common core and associated services. The developer has chosen to phase the building to manage risk of letting, etc. Phase 2 will be let on FRI leases over a range of unit sizes from 1893 sq ft to 2845 sq ft. A maximum of 4 suites is envisaged for Phase 2. Phase 2 of the building is scheduled to commence construction late in Year 2, by which time it is assumed Phase 1 will be fully let.
13151
10527
23678
- 2.6 Potential site development as part of the initial project totals 3.47 acres, in 2 no. serviced plots (sites 2/3 and 10). Values per acre (serviced) are estimated at £75,000.
- 2.7 A full financial appraisal on Phases 1 and 2, with assumptions made, is attached (Appraisals 1 and 2, Appendix B).
- 3.0 The Financial Argument for Gap Funding**
- 3.1 Appraisal 1 shows the development of Phase 1 of the building, together with the servicing of 2 no. sites. Associated access road improvements, drainage works, landscaping and car parking are included in the cost figures. Significant road and drainage costs to open up the (currently greenfield) site are noted. In terms of letting, it is assumed that 1 unit is taken up each quarter (with the Business Centre headlease being taken up and the Business Centre made operational at construction completion).

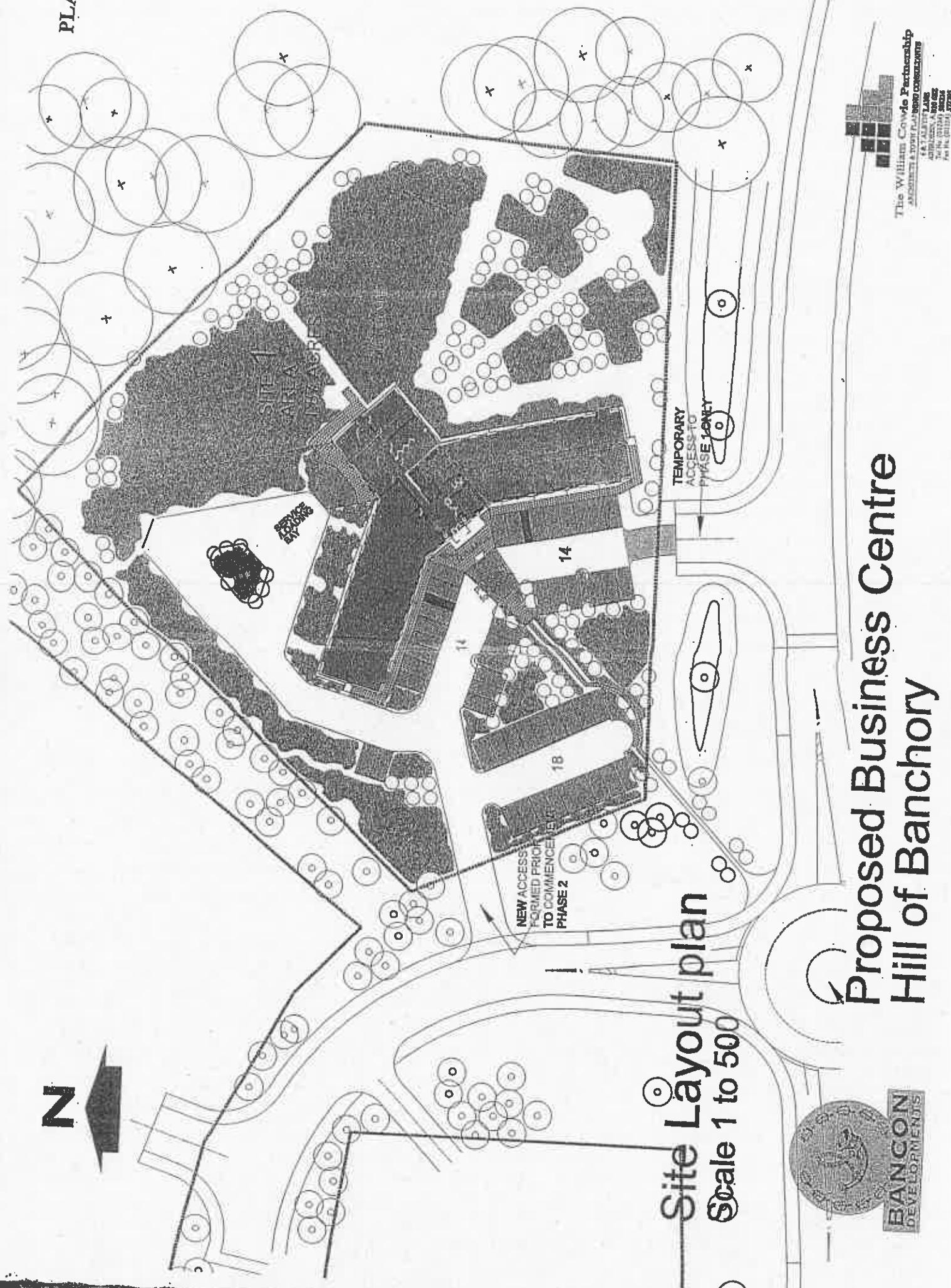
- 3.2 The cashflow shows that without any contribution from Scottish Enterprise Grampian, the development shows a negative NPV and an IRR below 8% (IRR 7.03%). With a contribution of £185,000 from Scottish Enterprise Grampian, the project breaks even, showing an NPV of £62K and an IRR of 8.6%.
- 3.3 The developer is willing to go ahead with Phase 1 with the benefit of this contribution, although profit levels are well below the accepted development norms, since:
- An improved profit will be forthcoming on completion of Phase 2
 - The developer is looking to the longer term and the kickstart to future development possibilities
 - A construction profit for the Bancon Group will be made on Phase 1 as a sister company will carry out the contracting works
 - The developer is willing to accept agricultural land value in lieu of acquisition price as the land has been owned by the Burnett family and will be transferred to the development company at agricultural use value.
- 3.3 Appraisal 2 shows the subsequent development of Phase 2 of the business building, benefiting from Phase 1 in terms of core areas and some external works. Appraisal 2 includes the initial phases of the development as described in 3.1 above.
- 3.4 The cashflows demonstrate that once Phase 2 is complete, the IRR for the total development is 10.5%, with the contribution of £185,000 from SE Grampian.
- 3.5 The contribution of £185,000 is the minimum the developer will accept to achieve their required levels of return. As previously stated they will only receive this total return on completion of Phase 2.
- 3.6 Clawback will be agreed for SE Grampian should the developer exceed their target return by completion of Phase 2.
- 3.7 By assisting this project it is hoped that the required kickstart to commercial development to alleviate market failure in Banchory will be achieved. Also further commercial land provision for the longer term will hopefully be safeguarded as a growth in confidence in the area as a business location following completion of Phases 1 and 2 (plus serviced sites) will encourage values and strengthen the potential for further development of the North Banchory Co's land holdings.

PLAN A

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PLAN



**Hill of Banchory
Financial Info Summary**

Appendix B

A. Current Drawings – Business Centre

Business Centre

97/1318/1001H Elev/layout phase 1
97/1318/1009/B Indic Layout phase 2

2 floors

Phase 1

	Gross	Net
Ground	700.2	561.37
1	521.6	414.95
TOTAL	1221.6	976.32
	(13,151 sq.ft.)	(10,508 sq.ft.)
Net to gross	79.9%	

Phase 2

	Gross	Net
Ground	579.36	527.07
1	398.64	375.52
TOTAL	978	902.59
	(10,527 sq.ft.)	(9,715 sq.ft.)
Net to gross	92%	

Notes

1. One wing of Phase 1 will be let as a Business Centre (c. 2,814 sq.ft.) in unit multiples of 150 sq.ft. Business Centre will be let on the basis of flexible terms.
2. Sister company to developer may occupy 1,500 sq.ft. on a lease.
3. Remaining space proposed to be let in unit ranges 667 sq.ft. to 2,845 sq.ft. (approx) on normal FRI terms.
4. 'Ladder effect' to be encouraged, moving up from business centre to bigger units, onto serviced sites, etc. etc.

B. Sites

Drawing No 97/1318/1002/K
Site Layout/Location

Site 1 (Business Centre)	1.87 acres
Site 2/3	2.57 acres
Site 4	0.54 acres
Site 5	0.99 acres
Site 6	0.47 acres
Site 7	1.09 acres
Site 8	1.08 acres
Site 9	1.07 acres
Site 10	<u>0.90 acres</u>
TOTAL	10.58 acres

Notes

1. Business Centre occupies Site 1 (1.87 acres)
2. Developer has options of providing additional sites with Hirn Road access improvements only – sites 2/3 and 10 ($2.57 + 0.9$ acres = 3.47 acres).
3. Other sites require more infrastructure works, access road, ponds, etc. (see drawing A7110/200E) e.g. Beyond 2/3 and 10 have to put in link road; beyond 2/3, 4, 9, 10 have to put in second pond, etc.

C. Planning Permissions

1. Full PP for Business Centre at Site 1
Dated 23 August 1999
Ref 598/008PF
For North Banchory Co Ltd
2. Outline PP exists for the industrial/business park for a total of net development of 4.5 ha (c. 10 acres)
Dated 6 January 1999
Ref 5980202PP
(See Planning Committee reports on file)

Boundary - from the draft for introducing plan 1 and sites (Mile posts - 16th March)	
Year	Cost (£'000s)
1	Cost of Business Centre
2	Acquisition Legal Fees, Stamp
	Planning/Permitting
	Construction
	Access Costs, Route
	Land/Pumping Fees
	Professional Fees
	Contingency (ink at start up etc)
	Marketing Agency Fees
	Site Fees
	1.50%
Phase 2	
	Acquisition Planning etc
	Construction etc Site Work/Permitting
	Potential Fees
	Agency Fees
	Site Fees
	1.50%
	Phase 3: Servicing
	Acquisition - Site Prep etc any Total Cost b/c
	Per Pet Fees
	Site Fees
	1.50%
	Income (£'000s)
	Total Income
	Capital Income
	Interest Income
	Phase 2: rental Capital
	Rental fees (£)
	200.25
	Capital Income - No Grant
	Interest Income
	Phase 2: rental Capital
	Without Grant
	Interest Income

Capital Value (approximate)			
Total Net Area	10508		
Avg Rent per E	12.00		
Annual Rental	126096		
Assume 8.5% Int	105307		
Yield (%)	10.00%		
Capital Value	105307		
Less Costs 5.25%			
Net Capital Value	988653		
R/R	8.35%		
Billed Occupations			
Offices	10158	Rent	Income
Conference Room	350	12	121806
Workshop Units		6	2100
Total	10508	0	123906

Site Sales
Y1
Y1

Site 10	acres	£
Site 20		67500
		135000

Photo - for photos 1 & 2, bring on screen both photos of business cards being plan service along
I Photo as per Attached structure no.

Appendix C

Economic Appraisal

C1 Direct Employment

Assuming a space allowance of 80 sq.ft. per person in the Business Centre and 100-150 sq.ft. per person (to allow for furniture, fit out, equipment, etc.) in other suites:

	<u>FTE's</u>
Direct Employment Phase 1 =	84 – 108
Direct Employment Phase 2 =	64 – 97
TOTAL	148 – 205

Additional direct employment will be achieved on the serviced sites, although FTE numbers will be heavily dependent on the final use choice (business (office) or industrial).

C2 Displacement

Taking a pessimistic view that only 30% of the jobs created will be truly additional results in a range for net job creation of 44 – 61 full time jobs.

C3 Indirect and Induced Employment

The potential for such jobs is considered to be high. Using a local level multiplier of 1.4 and a Scottish level multiplier of 1.5 gives an additional 17 – 24 local jobs, and 22 – 30 jobs at Scottish level.

C4 Construction Employment

The total construction costs associated with the project are £1,959,740. Full time equivalent jobs at Scottish level are therefore 7, of which 4 jobs are at local level.

Appendix D Required Clawback Conditions

- If a total capital value (net of 5.25% costs) greater than £1,937,539 is achieved on the total development (phases 1 and 2 of the business building), Scottish Enterprise Grampian shall receive 50% of the excess.
 - If a total capital value greater than £75,000 per acre is achieved on the serviced sites, which form part of the initial development (sites 2/3 and 10) Scottish Enterprise Grampian shall receive 50% of the excess.
 - If development costs (here consisting of construction costs and professional fees thereon) are less than £2,152,170 for phases 1&2 and sites (total), then Scottish Enterprise Grampian shall receive 50% of the savings (see calculation below).

Calculation of Clawback on Costs

Development Costs:

Phase 1	
Construction	£1,174,000
Fees	£117,400
Phase 2	
Construction	£608,490
Fees	£60,850
Sites	
Construction	£177,250
Fees	£14,180
TOTAL	£2,152,170